

FOUNDATIONS FOR FINANCIAL WELLBEING



**Introduction to
Money Management**



pocketsmith



Introduction to Money Management

Are you ready to understand the foundations of money management and gain a new understanding of personal finances?

This guide covers the basics of money management you need to know, from budgeting and planning for the future to understanding your financial personality.

What is money management?

Put simply, money management is the act of overseeing your finances, and applying a mix of ongoing habits in your day-to-day spending and saving, and strategies to grow your financial position over time.

Why is effective money management important?

Effective money management is critical to our everyday lives. Not only does managing your money well reduce stress and anxiety around finances, it can ensure you're prepared for life's surprises, and that you get to enjoy the money you work hard for, too.

Failing to effectively manage your money can lead to worrying levels of consumer debt, negative perceptions of money, and difficulty affording bills, expenses and your basic costs of living.



The four pillars of money management

Effective money management must cover both the physical and mental components of personal finances, while also being applicable and relevant to the present day and the future.

We've broken down money management into four key pillars:

Budgeting



Smart money management starts with living below your means – or at the very least, within your means. That means never spending more than you earn. When you spend more than you earn, debt can escalate very quickly, and breaking those habits you've become accustomed to can be difficult.

The easiest way to start managing your money more effectively is to take your income, minus your expenses, and split what's left between spending and saving. Even if you can only save a little bit, it's still worth doing. Saving essentially moves a surplus of money from one point in your life to another, and having a bit of money stashed away for a rainy day can help you cover the costs of unexpected expenses like car repairs or home maintenance.

Future planning

Managing your money well today is what sets you up for a financially stable future.

Planning ahead is an important part of money management, because it gets you thinking about how you can prepare for your wants and needs in the future, in real time. You can do this by starting to squirrel away a few dollars here and there towards anything from holidays to house deposits, and repairs to retirement.



Considered spending habits



Setting a budget is one thing, but if you haven't got your spending habits in check, you may still find yourself dipping into your savings and failing to make progress. Once you've established how much of your income is left over for spending, get clear on where your money is actually going.

It can be helpful to do an audit of the transactions on your bank statement, and see where money could be leaking out of your lifestyle. Do you really need to buy lunch everyday? Are the 3pm sugar cravings costing you big over the long term? Do you online shop when you're stressed?

Getting on top of where your money is going and prioritizing what really matters – and kicking to the curb the things that don't – can revolutionize the way you manage your money.

Positive mindset

Money management starts with money mindset. Building a positive relationship with money will make all the other aspects of personal finances easier.





The role of money mindset

Your money mindset is a set of beliefs or values instilled in your mind that relate to money.

These beliefs and biases are formed throughout your life, but the foundations of which tend to come from your formative years as a child, and draw upon the experiences you had with money growing up.

Those that grow up with financially comfortable parents who spoke openly and positively about money may have a more positive money mindset than someone who grew up with less money in the house and more negative discourse around finances.

5 steps to improving your money mindset

1

Spend some time thinking about your earliest memories of money, and unpack some of the biases you've developed.

For example, if you grew up with parents who were very stressed about money, you might have taken on that anxiety. If you experienced family conflict because of money, you may view money as inherently bad or evil.

2

Think about what scares you financially, and flip that fear into empowerment. We all have fears about what could happen in our lives, but learning to embrace that fear and empower yourself to handle it the best way you can means flipping your mindset from fearful to powerful.

Things like setting a budget, contributing to your retirement savings, and stashing an emergency fund can reduce fears around money and prove to yourself you can take control.

5 steps to improving your money mindset

3

Find ways to experience money in a positive way, like having your favorite coffee or giving yourself a treat fund.

If your financial experiences have been negative, that can translate to a more negative relationship with money in adulthood. Making a conscious effort to use money for things that make you happy can help rewrite that story.

4

Avoid unnecessary restriction. Many of us use restriction as a coping mechanism, as it's something we can control. But, even if your bank balance looks top notch because you never buy anything, that doesn't necessarily mean your relationship with money is good. If you think you're over-restricting, unpack why that is, and reframe your money mindset from restriction to abundance.

5

Practise gratitude and generosity. Feeling worthy and grateful for any and all money that comes to you can improve the way you see money more broadly. Money is transactional at its core, but it carries emotion because we're human beings with feelings.

By leaning into this and feeling thankful for what you have, and being generous with any surplus you have (within the boundaries of your own means, of course), you can build a more positive financial outlook.



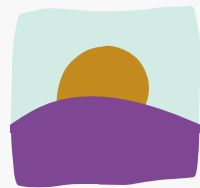
Identifying your money personality type

Just like our social personalities, we all have a money personality, too.

There are a few different models of financial personality profiling, including those defined by psychologist and author of Happy Money, Ken Honda.

The Compulsive Saver

Compulsive savers stash every penny and are seen to be very frugal. While savvy with stashing cash, those with this financial personality may struggle to be able to spend any of their hard-earned money to enjoy life, bring happiness or find purpose. They may also find investing difficult, and be very conservative with their money management.



Money management tip for compulsive savers

Start getting more comfortable with spending on things that aren't essential. Whether it's a coffee on the way to work, or ordering a more expensive wine from the menu instead of old faithful house white. Starting small and building up to bigger spends shows you that the world doesn't end when you treat yourself, and helps you feel safe enough to use your money to enhance your lifestyle.

The Compulsive Spender

Compulsive spenders are the opposite of the compulsive saver. They tend to spend emotionally and impulsively, and have no trouble spending more than they earn, which can often land them in debt. That said, compulsive spenders may be less risk averse than compulsive savers, and also find it much easier to use their money as a vehicle to enjoy life.

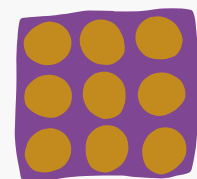


Money management tip for compulsive spenders

The first step for compulsive spenders to take control is awareness. Get clear on where your money is going. What are your vices, and what are your triggers? Your vices are the things you regularly find yourself wanting to buy. Your triggers are the thing that prompts you to make that transaction. Often it's emotional, like stress, anxiety or lack of self-confidence, and other times it's an external trigger, like taking a certain route at lunchtime, or ordering a new outfit every time you have an event to go to. Knowing what's causing you to spend and what you're spending on can give you the understanding you need to stop your compulsive spending in its tracks.

The Compulsive Money Maker

Less common among everyday people, compulsive money makers may be entrepreneurial in nature, and find themselves laser focused on earning more and more money, believing it's the only way to be happy and secure. While financially they may fare well, relationships can suffer and money can get in the way of their lifestyle.



Money management tip for compulsive money makers

A bit like the compulsive saver, compulsive money makers need to gradually learn that life is pretty good when you're not obsessing over money. Start by taking short breaks from your money-making activities, and train your brain to realize that there's more to enjoy than making more money.

The Indifferent-to-Money

If you are indifferent to money, you don't give money much thought. You don't tend to want to spend on extravagant things, and only need a small amount of money to feel fulfilled. In many ways this is a healthy personality type to have, but problems can arise when it comes time to face your finances, as the long-standing indifference has made you very unaware of what's actually happening with your money and how it could be better protecting you.

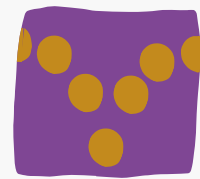


Money management tip for those indifferent-to-money

It's time to get connected to your money. Indifference, be gone! Start by checking your bank account more frequently, and getting up close and personal with what you spend your money on. Choose an area of personal finances to learn more about, whether that's investing in the stock market, or understanding your retirement fund, and get your mind engaged with your money.

The Saver-Splurger

Saver-splurger personality types are able to save money quite easily, but often give into splurges when they get tempted. You may struggle to hold onto money for a long period of time, or save for things in the distant future, because you eventually splurge the money you've worked so hard for.

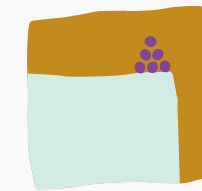


Money management tip for saver-splurgers

Saver-splurgers need to understand what's causing them to go off the rails. If savings are happening in the short term, but don't stick for the long term, we need to unpack what's going on there and how to rectify it so your savings stay firmly where they belong – in your savings account. Look back on what you tend to splurge your savings on and why. From here, you can employ new strategies to reduce the likelihood of dipping into your savings, whether that's keeping your cash in a harder-to-access account that's not connected to your usual bank, or giving yourself more money to spend day-to-day to reduce the compulsion to periodically splurge.

The Bettor

Bettor personalities are usually go-hard-or-go-home types, and will risk a lot for a big reward. They may find themselves chasing wins in day trading or cryptocurrency markets, and even tapping into emergency savings and retirement funds to chase another loss.



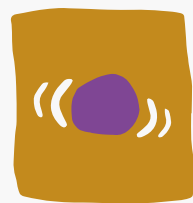
Money management tip for bettors

If cold turkey isn't for you, allocating a small amount of money that's within your means to satisfy your bettor personality type can help you get your fix without derailing your financial goals. If you or your loved ones think your bettor personality could be putting you at risk, seek professional help.

www.gamblinghelpline.co.nz

The Worrier

Worriers love the worst case scenario. No matter how stacked their emergency fund is, they're still worried they'll lose it, and struggle substantially with their financial confidence. Spending is more difficult for worriers, too, which can be costing them happiness and fulfilment in life.



Money management tip for worriers

Worriers, it's time to quantify your fears. Look at your regular expenses and see how long you could live on your stacked up savings alone. Connect to the things you're worried about, and prove to yourself that the savings you've diligently amassed can cover those eventualities. It's very rare for anyone to think they've genuinely got 'enough' money, so it's time to train your brain to remember that you're well equipped for what could be, so you can get out there and enjoy life!



Making money management a part of your lifestyle

Now you've identified your spending personality, your money mindset and the key pillars of effective money management, it's time to put it all into practice. Awareness is what kickstarts action, so find ways to continue evolving your awareness and understanding beyond this guide. That can be anything from researching more into money management strategies to setting up a monthly financial review for yourself, where you go back through your spending and saving for the month and see how you're tracking.

Taking small steps to building out your money management practise compounds over time to set you up with a solid foundation upon which to build financial confidence.



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